CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE

FINANCIAL INTEGRITY AND STATE
MANAGER'S ACCOUNTABILITY ACT

AUDIT REPORT

FOR THE TWO-YEAR CYCLE ENDING DECEMBER 31, 2009

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AND STATE MANAGER'S
ACCOUNTABILITY ACT

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INTRODUCTION

In accordance with the Financial Integrity and State Managers Accountability (FISMA) Act of 1983, the California Department of Food and Agriculture submits this report on the review of our systems of internal control for the biennial period ended December 31, 2009.

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BACKGROUND, OBJECTIVES, SCOPE AND METHODOLOGY

Background

The Legislature enacted the Government Code Section 13070 which created the Financial Integrity and state Manager's Accountability Act of 1983 (FISMA). FISMA charges each state agency with the responsibility of maintaining effective systems of internal accounting and administrative program control as an integral part of its management practices. All levels of management at every state agency must be involved in assessing and strengthening these systems. The Legislature also mandated that the systems of internal accounting and administrative program control be evaluated on an ongoing basis.

The Department's mission is to help the Governor and Legislature ensure delivery of safe food and fiber through responsible environmental stewardship in a fair marketplace for all Californians.

Many of the Department's services are conducted in partnership with local county offices of the agricultural commissioners and sealers, and in cooperation with the U.S. Department of Agriculture, other California state and local agencies, and industry and agricultural organizations throughout the state. These activities are addressed with approximately 2,400 staff positions and an annual budget of approximately $348 million. Federal funds and user fees make up the majority of the Department's budget.

Objectives and Scope

The objective of the risk and control assessment was to assist the Department in complying with the reporting requirements of FISMA. The scope of the assessment included performing an internal review and risk assessment of critical programmatic and business functions of the Department. Programs were selected for review based on industry-specific risk factors, prior audit findings, management concerns, potential for fiscal control weaknesses, and other risk factors applicable to the functions of the Department.

Methodology

To initiate this assessment, the internal auditors gained an understanding the Department's mission and critical functions. We familiarized ourselves with the control environment of the Department by reviewing the Department's FISMA report issued in 2007 and the Internal Control Questionnaire issued in collaboration with the Department's executive office in 2009. We conducted interviews with Department staff and reviewed documentation and procedures to determine if previous audit findings had been resolved.

The Audit Office collaborated with the Department management to conduct a risk analysis to identify and evaluate the threats and/or risks that could impede the Department's achievement of its objectives. Discussion sessions were conducted with select divisions to identify the most significant program and administrative issues impacting the Department's functions. During the sessions, the control environment was also discussed. Based on that information, our strategy was to identify any mitigating controls or lack thereof, and evaluate whether mitigating controls are functioning as intended. A follow-up evaluation of controls was conducted where appropriate, and recommendations were identified to address risk and control issues. The results of these activities comprise the Issues and Corrective Action section of this document.

The risks/issues and related recommendations do not necessarily constitute control deficiencies, but rather are enhancements to activities designed to achieve the Department's missions and goals.

ISSUES AND RECOMMENDATIONS

The Issues and Recommendations Section of this report was developed through collaborative risk and control assessment discussions between the internal auditors and executive staff. Discussions were conducted to identify the most significant program and administrative issues impacting the Department's functions. During these discussions, the control environment was also discussed. Corrective actions were identified to address risk and control issues.

The risks or issues and related recommendations do not necessarily constitute control deficiencies, but rather are enhancements to activities designed to achieve the Department's mission and goals.

Issue #1 – Allocation of costs amongst programs was not always properly supported.

Labor time usage amongst programs was not always supported with timesheets. The State Administrative Manual recommends a continuous positive time keeping or a continuous exception time reporting system. Both of these systems allow a program to better track the labor time spent on various programs.

Risk:

Programs with limited budgets and fund sources may be unnecessarily allocated costs. Without accurate financial information, programs will not be able to make informed decisions about the future of their programs.

Recommendation:

Departmental programs should analyze their costs and determine if the costs have been allocated correctly. Proper support would include positive timekeeping records to demonstrate the amount of labor usage among programs.

Issue #2 – Databases are not always integrated and centralized.

Stand alone databases at the programs are an inefficient use of resources. For example, one program used four separate databases that should have been centralized. Instead, an individual would have to gather information from each database and combine the information manually to have all the information needed to make informed decisions.

Risk:

Inefficient use of resources can be a burden to the limited state resources of the department.

Recommendation:

The department should integrate databases whenever possible.

Issue #3 – Management did not have a written and ongoing risk-assessment process in place.

Risk:

Without a written risk assessment process in place, management cannot formulate an approach for risk management and decide upon the internal control activities required to mitigate those risks and achieve the internal control objectives of efficient and effective operations, reliable financial reporting, and compliance with laws and regulations.

Recommendation:

The Department should establish and continuously update a written risk assessment that includes all of the objectives, threats, and internal controls that are necessary to achieve its goals. The departmental programs should continuously monitor and update their objectives, threats, and internal controls as necessary. The Department heads should routinely meet with the various programs to ensure this is being performed.

Issue #4 - Department vehicles and gas cards are not adequately safeguarded from improper use and defalcation.

Controls are not in place to ensure adequate safeguarding of state-owned vehicles and VAV/Voyager gas cards. Numerous conditions exist that allowed the misuse of these resources. Examples of inadequate internal controls include:

- Issuance and tracking of cards were insufficient to provide accountability over usage.
- The post audit process was inefficient; subsequently, review was inadequate to detect potential personal use. We noted one employee who improperly used the card for personal use.
- Vehicle home storage permits did not include sufficient information to ensure safeguarding and accountability for vehicles and their related Voyager card.
- The restrictions over use of State-owned vehicles and the personal income tax reporting requirements for personal use these vehicles were not clearly communicated to employees.
- The necessary auto logs to track fleet usage were not maintained.
- Steps to recover amounts owed due to improper use or violation fees are not consistently taken.

- Contracts with independent contractors lacked clear provisions for recovery of inappropriate charges.
- Programs may be inappropriately using VAV cards to fuel short-term rentals.

Risk:

Without proper internal controls, the Department can, and did, experience misuse and defalcations of resources critical to accomplishing the Department's objectives.

Recommendations:

The Department should strengthen its controls over its Voyager/VAV system. The department should begin by providing training to all individuals involved with State vehicles and gas cards.

The departmental programs should work closely with the Departmental Services Branch (DS) to ensure all vehicles and gas card are appropriately accounted for and tracked. Once accountability has been established for the issuance of vehicles and cards, the department must ensure that safeguards are implemented as well.

The programs should develop adequate systems to track gas cards. This system should include documentation to link a specific user to the charges incurred on a particular card, controls to prevent an employee from retaining vehicle keys or gas cards that should have been turned in prior to the employee's departure, and a periodic inventory of cards out at the programs should be performed to ensure all cards are properly accounted for.

Going forward, programs should be made aware that, in the event defalcations are detected or suspected, the Audit Office should be contacted to ensure that the proper authorities are notified and to coordinate any investigations that will be required to facilitate proper reporting.

The programs should ensure auto logs are maintained on all vehicles and that the reports are being properly submitted to DS. Properly maintaining and submitting auto logs will ensure that the Department is not reporting underutilization of vehicles that should not be classified as such.

Issue #5 – The Animal Health Branch does not have a process in place to ensure fees for the Equine Medication and Monitoring Program are collected.

Risk:

The branch is not collecting on the potential revenue generated from the Equine Medication and Monitoring Program. Programs need to ensure that all monies are collected to support these important programs.

Recommendation:

The branch should implement a process for monitoring horse shows and number of entrants, and for verifying fees collected, including a system of oversight by an individual superior to and with separate duties from the inspector.

Issue #6 – Programs have difficulty recruiting qualified candidates, in part due to non-competitive salaries.

Risk:

These programs have a number of positions that remain vacant, which creates a backlog of work for the programs making it difficult to ensure the program's objectives are met. These programs and recruits are critical to the department. Without the ability to hire these qualified individuals, the department is at risk of not accomplishing its mission.

Recommendation:

The programs should work closely with the Human Resources Branch to ensure all efforts are made to hire these recruits.

Issue #7 - A Manager allowed another manager to be improperly paid for time not worked.

A manager was responsible for delaying the use of another manager's leave credits for several months after the manager resigned. This overpayment resulted in a loss to the state in excess of $57,000.

Risk:

Circumvention of established internal control procedures allows the Department's limited funds to be lost through inappropriate use.

Recommendations:

The Department should notify the State Controllers Office of the overpayment. An accounts receivable should be established for the correct amount. Furthermore, the department should seek repayment once the final dollar amount has been determined.

The Department should consider taking disciplinary actions.

The Department should consider strengthening the internal controls involving personnel actions with Executive Staff. One such control may be to have Chief Legal Counsel review all such actions.

Issue # 8 - Internal controls over separations, overtime and accounting for leave usage are inadequate.

Leave accounting records did not always reflect separations, overtime, and the correct leave usage due to the absence of requiring employee's Absence and Additional Time Worked Report (Std. 634). Employees did not always follow the proper state guidelines as it related to timekeeping.

Risk:

The lack of internal controls regarding leave usage exposes the department to possible violations regarding employee time worked in excess of normal hours as specified in the employee's bargaining unit agreements.

Recommendation:

The departmental programs should receive the proper training on a routine basis from HRB as it relates to timekeeping. Furthermore, HRB should ensure that staff and supervisors are aware of the proper policies regarding timekeeping. It is important that a Std. 634 is properly completed on a monthly basis in accordance with SAM. This may require more frequent reminders and training of all departmental supervisors.

Issue #9 - The employee separation process is inadequate to safeguard department resources.

Review of the Department's use of Checklists for Temporary or Permanent Separations (Form SO-8) disclosed a failure to recover telecommunications equipment and removal from NetWare and GroupWise systems due to a lack of timely and effective coordination for 2 of the 18 employees reviewed. Furthermore, Telecommunication employees also stated that they are not always made aware of employee separations.

The Department did not always ensure the Form SO-8 reflected sign off by Telecommunications that state owned equipment had been returned prior to the date the payroll warrant was released. Without such information, employees were paid before full verification that all outstanding balances and state owned properties have been cleared.

Risk:

Failure to ensure all State property is returned and that restricted electronic information cannot be accessed prior to issuing the final payroll warrant subjects the Department to loss of property and misuse of restricted information, and limits the Department's ability to recover losses, should they occur.

Recommendation:

The Department should ensure that Form SO-8 is submitted for all separated employees and that the forms are fully completed. Only after the Form SO-8 is returned from Financial Services verifying that all outstanding balances have been cleared may the salary warrants be released. Furthermore, the warrant release date should be documented on the SO-8.

Issue #10 - Deficiencies exist in accounting for the Revolving Fund.

The following deficiencies existed:

- The Department lacks documented procedures for processing office revolving fund deficiency claims and, as a result, did not adequately perform the required processes during the audit period

- Overdrafts to the office revolving fund occurred during the audit period. Budget delays and slow receipts of replenishment claims conflicted with the Department's need to issue advances during threat situations such as Light Brown Apple Moth and Bovine Tuberculosis outbreaks.
- Funds were not always withheld from employees' payroll warrants to repay outstanding travel advances. Although the Department sent collection letters and the balances still remained outstanding 30 days later, the process for deducting the amounts from the employees' next regular payroll warrants was not initiated. This is a prior year finding.
- Travel reimbursements were issued that exceeded the State travel reimbursement guidelines.
- Revolving fund reconciliations were not performed in a timely manner.

Risk:

Without a proper system to communicate procedures and to ensure internal controls over the revolving fund, the Department runs the risk of having inadequate revolving funds available when threat situations arise.

Recommendations:

The Department should ensure it submits the Report of Office Revolving Fund Deficiency Claims for Reimbursement annually, by September 30th of every year, to the Department of Finance, Office of State Audits and Evaluations. The Department should document and follow required procedures for filing and reporting office revolving fund deficiency claims for reimbursements and should establish a system for maintaining all paperwork related to revolving fund reimbursements. This documentation should be retained as support when deficiency claims reimbursements are requested.

In the future, the Department should avoid issuing payments that would lead to overdrafts in the revolving fund. Checks should be drawn on the accounts only when there are sufficient funds to prevent overdrafts from occurring.

All travel advances that have been outstanding in excess of 30 days past the periodic statement date should be collected by withholding the amount, up to 25% of an employee's net salary, from the employee's next regular payroll warrant. Furthermore, the Department should perform this procedure whenever a TEC is not submitted or the excess travel advances are not returned within 30 days of issuing a collection letter.

The Department should issue repayments to employees only for amounts that constitute reimbursements for the least costly method of travel. Unless there are extenuating circumstances that have prior written justification, employees should travel by aircraft when it is the most efficient and least costly mode of travel.

Revolving fund reconciliations should be prepared within 30 days of the preceding month's end.

Issue # 11 – Internal controls over cash have inefficiencies.

The following weaknesses were observed:

- Due to a lack of adequate posting, general ledger cash accounts did not always agree to the amounts reported on the bank reconciliation and used in the process for reconciling the bank statement.
- Monthly bank reconciliations were not always timely and were not always adequately reviewed.
- Monthly adjustments, required under the plan of financial adjustment, were not always performed.

Risk:

A lack of timely adjustments and reconciliations of the cash accounts reduce the Department's ability to prevent and detect errors or irregularities, increasing the risk of loss of assets critical to the Department's mission. In addition, delay in resolving discrepancies ultimately increases the amount to time staff must spend researching their cause, resulting in a loss of efficiency, further straining limited staff resources.

Recommendations:

Adjustments should be posted in the system whenever they are known to be required.

Supporting documentation should be maintained to demonstrate the necessary adjustments were entered into the system and that the bank statement reconciles to the appropriately adjusted amount.

Bank reconciliations should be performed that contain all the required elements, such as approval signatures and dates, within 30 days of the preceding month.

Required transfers should be made on a monthly basis.

Issue # 12 - Control over check signing machine is deficient.

Checks that were processed through the check signing machine were not adequately tracked. No log was maintained to track the number of checks processed through the Department's check signing machine, in order to verify the number of checks processed. This number should equal the number of checks appropriately authorized to be signed.

Risk:

Without adequate tracking and review of the number of checks processed through the machine, the Department opens itself up to the potential of inappropriate use of mission critical funds.

Corrective action:

Implement a system to track the checks processed through the check signing machine and to verify that funds are used only to further the Department's objectives.

Issue #13 - Accounting and oversight of accounts receivable are ineffective in some programs.

As noted in our prior fiscal year audit report #07-063, program accounts receivable balances were not sufficiently tracked, monitored, or collected. Since our last audit report, the program has begun an intensive combined coordination with the Department's Financial Services Branch to request from State Controllers Office a request for Discharge of Accountability for any outstanding uncollected balances.

Risk:

Inadequate processes and controls over accounts receivables subject the program to lost revenue. In addition, allowing uncollectible balances to remain on the accounting records misrepresents the program's financial position, reducing management's ability to make appropriate fiscal and programmatic decisions.

Recommendations:

Prepare and submit to the State Controllers Office a Discharge of Accountability for the outstanding uncollectable accounts receivable balance.

In the future, ensure that all schedules of accounts receivables are reconciled to supporting source documentation such as a customer invoice or vendor list. In the event of non-payment, send a series of collection letters on a monthly basis to all customers with past due balances. Delinquent accounts should be monitored on a monthly basis to determine whether a discharge from accountability should be prepared. Once all avenues of collection have been exhausted, management should prepare and forward a discharge of accountability to the State Controllers Office for their review and approval.

Issue #14 - Internal controls over fixed assets contain deficiencies.

The following weaknesses were noted over fixed assets:

- Reconciliations between the general ledger and subsidiary ledgers for fixed asset amounts were not always performed in a timely manner, and showed variances and discrepancies that were not clearly resolved.
- Police or California Highway Patrol reports could not always be located to support that adequate steps had been taken to follow up on the items surveyed due to the losses discovered during the inventory process.
- The subsidiary ledger for equipment contains unresolved errors in accounting for capitalized and non-capitalized items.

- The PEMS database does not accurately reflect the Department's total intangible assets.
- Postings to the general ledger were not timely. We noted delays in posting from three and fourteen months.

Risk:

Deficient internal controls over fixed assets subject the Department to loss or misuse of resources which are critical to ensuring the Department's objectives are met. Additionally, the possibility that errors will go undetected and unresolved is increased, which could lead to significant accounting errors, and the possibility of management relying on inaccurate data when making decisions that ultimately impact public health and safety.

Recommendations:

To improve the system of accounting for fixed assets, an appropriate level of authority should be designated at the program level as responsible for ensuring the tracking and safeguarding of the Department's equipment assets.

The department should ensure that subsidiary accounting records related to fixed assets are reconciled to the general ledger on a monthly basis and any variances should be clearly resolved.

When items are discovered to be lost, the program should file a report with the California Highway Patrol.

The department should ensure that capitalization errors affecting the equipment subsidiary ledger are resolved.

Every effort should be made to research and resolve the discrepancies that persist in its PEMS database.

Ensure accounting records for fixed assets are adjusted timely and adequately reflect the correct balances in its general ledger fixed asset accounts. Amounts that have been incorrectly capitalized should be researched and adjusted accordingly.

Issue #15 - Property survey procedures are inadequate.

The following weaknesses were noted over property surveys:

- Property surveys were not updated in the system in a timely manner.
- Acknowledgements of the disposals were not returned to the property controller, leading to the subsequent delays in processing.
- Proper identification tagging of state owned equipment did not always occur.
- Training with regard to the inventory process was not communicated to the individual assuming the duties. As a result, a proper paper trail was not maintained for the

inventory adjustments that were made during the audit period. This was a prior audit finding.

Risk:

Lack of an up-to-date record increases the opportunity for loss of resources, decreases the reliability of decision-making information provided to management, and decreases the efficiency of staff involved in the inventory process. As a result, the Department may not be using is limited resources most productively.

Recommendations:

Ensure programs process the paperwork for the surveys and the actual disposals of assets in a timely manner. Going forward, ensure that acknowledgements of disposals are returned to the property controller in a timely manner.

Ensure the property controller continues to follow up with the programs on items that have been outstanding for an extended period of time.

Ensure property is being adequately tagged after acquisition, and maintain a proper paper trail by documenting inventory adjustments on the appropriate Std. 157 Form.

On a going forward basis, ensure that adequate training is provided whenever duties are reassigned.

DEPARTMENT'S RESPONSE

The Department accepts the findings contained in this Audit Report. A corrective action plan will be developed within the timeframes required by Audit Memo 09-02 and will outline the actions to be taken and timelines needed to complete these actions.